



**UMZUMBE MUNICIPALITY
UMASIPALA WASEMZUMBE**

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ANNUAL FINANCIAL STATEMENTS

For the year ended

30 June 2008

I am responsible for the preparation of these annual financial statements, which are set out on pages to x, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 23 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

T.B. Mbhele
Municipal Manager

Date

UMZUMBE MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE 2008

1. BASIS OF PRESENTATION

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) and the Standards of Generally Accepted Municipal Accounting Practices (GAMAP) on an accrual basis of accounting prescribed by the Minister of Finance in terms of:

- Section 122(3) of the Municipal Finance Management Act, No. 56 of 2003;
- General Notice 991 of 2005, issued in Government Gazette no 28095 of 15 December 2005; and
- General Notice 992 of 2005, issued in Government Gazette no 28095 of 07 December 2005.

GRAP and GAMAP standards are fundamentally different to the fund accounting policies adopted in the previous years. Comparative amounts have been restated retrospectively to the extent possible. The effect of the change in accounting policy arising from the implementation of GRAP and GAMAP is set out in note 18

The Standards comprises of the following:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GAMAP 4	The Effects of Changes in Foreign Exchange Rates
GAMAP 6	Consolidated Financial Statements and Accounting for Controlled Entities

GAMAP 7	Accounting for Investments in Associate
GAMAP 8	Financial Reporting of Interest in Joint Ventures
GAMAP 9	Revenue
GAMAP 12	Inventories
GAMAP 17	Property, Plant and Equipment
GAMAP 19	Provisions, Contingent Liabilities and Contingent Assets

Accounting policies for material transactions, events or conditions not covered by the above GRAP and GAMAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures are based on the South African Statements of General Accepted Accounting Practices (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board.

The principal accounting policies adopted in the preparation of these annual financial statements are set below.

Assets, liabilities, revenues and expenses have been offset except when offsetting is required or permitted by a Standard of GAMAP or GRAP.

2. PRESENTATION CURRENCY

These annual financial statements are presented in South African Rands.

3. GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on a going concern basis.

4. RESERVES

4.1. Government Grant Reserve (GGR)

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/(deficit) to the Government Grants Reserve equal to the Government Grant recorded as revenue in the statement of financial performance in accordance with a directive (budget circular) issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/(deficit). The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/(deficit).

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/(deficit).

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognized as an expense in the period that the impairment is identified, except where the impairment reverses a previous revaluation.

The cost of an item of property, plant and equipment is acquired in exchange for a non-monetary asset, or a combination of monetary and non-monetary assets is measured at its fair value. If the item acquired could not be measured at its fair value, its cost is measured at the carrying amount of the assets given-up. Subsequent expenditure

relating to property, plant and equipment is capitalized when the recognition and measurement criteria of an asset is met.

All assets of the municipality are verified in terms of municipality's asset management policy for the purpose of:

- Physically identification of all assets,
- Determining assets to be written off,
- Determining usable condition of all assets,
- Determining whether an indication of impairing assets exist.

Depreciation is calculated on cost, using the straight line method, over the estimated useful lives of the assets. The depreciation rates are based on the following estimated useful lives:

Infrastructure	Years	Other	Years
Levelling Drains on roads	20	Buildings	30
Roads construction	10	Furniture and	8
Road gravelling	10	Fittings	
Borehole pump	15	Plant and	
		Equipment:	15
			5
		Tip Trailer	5
		Furrow Plough	10
		Harrow Offset	10
		Tractors	15
		Hydroponic Tunnel	15
		Grader	
		TLB	
		Office Equipment:	
		Computer	5

		Equipment	5
		Airconditioner	5
		Overhead projector	5
		Fridge	
		Television	
		DVD Player and	5
		Digital recorder	5
		Printer	5
		Fax machine	5
		Macrowave	5
		Others	
		Motor Vehicles	5

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognized in the Statement of Financial Performance.

The land and buildings are not revalued.

Where the carrying amount of property, plant and equipment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance. The municipality assesses at each reporting date whether there is any indication that any item of property, plant and equipment may be impaired by reviewing external and internal sources of information which indicates that impairments may have occurred.

Incomplete construction work is stated at historical cost. The depreciation only commences when the asset is commissioned into use.

The carrying amounts of the assets are written off on disposal. The difference between the carrying amounts (i.e. cost less accumulated depreciation) and the sales proceeds are reflected as a gain or loss in the Statement of Financial Performance.

6. FINANCIAL INSTRUMENTS

The municipality has the following types of the financial instruments and these can be grouped as either Financial Assets or Financial Liabilities.

6.1. FINANCIAL ASSETS

A financial asset is any asset that is cash or contractual right to receive cash (i.e. in terms of IAS 32 paragraph 11). The municipality has the following types of financial assets as reflected on the face of the statement of financial position or in the notes thereto:

- Short term investments deposits
- Bank balances and Cash
- VAT Refundable
- Long term receivables
- Other receivables

6.2. FINANCIAL LIABILITY

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity (i.e. in terms of IAS 32 paragraph 11). The municipality has the following types of financial liabilities as reflected on the face of the statement of financial position or in the notes thereto:

- Creditors
- Defined benefits obligation

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6.3. CREDITORS

Creditors are stated at their nominal value.

In terms of IAS 39 paragraph 9, the financial assets of the municipality are classified into the following categories as allowed by this standard:

Type of Financial Asset	Classification in terms of IAS 39 par. 9
Short term investments deposits	Held to maturity
Bank balances and Cash	Available for sale
VAT Refundable	Loans and receivables
Long term receivables	Loans and receivables
Other receivables	Loans and receivables

Financial instruments are recognized and measured in accordance with IAS 39, paragraphs 43, 46 and 47. Held to maturity investments and loans and receivables are initially measured at fair value and subsequently measured at amortised cost. Available for sale assets are initially and subsequently measured at fair value with the profit or loss being recognized in the statement of financial performance.

At each balance sheet date an assessment is made whether there is any objective evidence of impairment of financial assets. If there is any such evidence the recoverable amount is estimated and an impairment loss is recognized in accordance with IAS 39.

Loans and receivables are non-derivative financial assets with fixed or determinable payments. They are included in current assets except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are initially recognized at cost which represents fair value. After initial recognition financial assets are measured at amortised cost, using effective interest rates method less provision for impairment (if any).

Accounts receivables are grouped together in financial assets with similar credit risk characteristics and collectively assessed for impairment.

7. ACCOUNTS RECEIVABLES

Accounts receivables are carried at anticipated realizable value. An estimate is made for doubtful receivables (if any) based on a review of all outstanding amounts at year end. Bad debts (if any) are written off during the year in which they are identified. Amounts that are receivable within 12 months from reporting date are classified as current.

8. REVENUE RECOGNITION

The revenue from unconditional grants is recognized immediately upon the receipt.

The interest revenue is recognized on a proportional basis.

The revenue from tender sales is recognized when the bidders have actually bought the tender document and paid for it. The revenue from hiring of hall is recognized when the community member has actually book for the hall and actually paid for the booking.

Revenue from the recovery of unauthorized, irregular, fruitless and wasteful expenditure or from any recoveries is based on legislated procedures, including those set out in the Municipal Finance Management Act, No. 56 of 2003 and is recognized when the recovery thereof from the responsible councillors or officials is virtually certain.

9. CONDITIONAL GRANTS AND RECEIPTS

Revenue received from conditional grants, donations and funding are recognized as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligation embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognized.

10. CASH AND CASH EQUIVALENTS

Cash includes cash on hand and cash with the banks. Cash equivalents are short term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of cash flow statement cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts (if any).

Bank overdrafts (if any) are recorded based on the facility utilized. Finance charges are expensed as incurred.

11. PROVISIONS

The provisions are recognized when the Municipality has a present or contractual obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate of the provision can be made. Provisions are reviewed at reporting balance sheet date and adjusted to reflect the current best estimate. Non-current provisions (if any) are discounted to the present value using a discount rate based on the average cost of borrowing to the Municipality.

12. POST RETIREMENT BENEFITS

12.1. General

The defined benefit obligation, the related current cost and where applicable, past-service cost, is determined by using the Projected Unit Credit Method. A portion of the actuarial gains and losses is recognized as revenue or expense, provided the net cumulative actuarial gains and losses at the end of the previous reporting period exceed greater of:

- 10% of the present value of the defined benefit obligation at that date before deducting plan assets; and
- 10% of the fair value of the plan assets.

The portion of the actuarial gains and losses to be recognized is equal to the excess calculated, using the above limits and divided by the expected average remaining working lives of the employees participating in the plan. Unvested past-service costs are recognized as an expense in the Statement of Financial Performance.

12.2. Pension, Provident, Retirement Benefits and Group Life Scheme

The municipality provides retirement benefits for its employees in the form of both defined benefit and defined contribution plans. The municipality is no longer providing a retirement benefits for the councillors, because they are now getting a total package.

A **defined benefit plan** is a plan that defines an amount of benefit that an employee will receive on retirement. A **defined contribution plan** is a plan under which the municipality pays a fixed contribution into a separate entity. The municipality has no legal or constructive obligation to pay further contribution if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior period.

The contributions to fund obligations for the payment of retirement benefits are charged against the revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognized as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities.

The municipality also contributes in a Group Life Scheme for all employees in the event of their death other than section 57 employees.

13. LEASES

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment (if any) subject to finance lease agreements are capitalized at their cash cost equivalent and the corresponding liabilities are raised. The cost of the property, plant and equipment is depreciated at appropriated rates on the straight line basis over its estimated useful lives. Lease payments are allocated between the lease finance costs and capital repayment using the effective interest rate method. Lease finance costs are expensed as occurred.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are expensed as they become due.

14. BORROWING COSTS

Borrowing costs (if any) are recognized as an expense in the Statement of Financial Performance.

15. VALUE ADDED TAX

The municipality accounts for Value Added Tax on the cash basis.

16. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is an expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of the government, municipality or organ of the state or expenditure in the form of a grant that is not permitted in terms of Municipal Finance Management Act, (No. 56 of 2003).

Unauthorised expenditure is accounted for as an expense in the Statement of Financial

Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

17. IRREGULAR EXPENDITURE

Irregular expenditure is an expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), Municipal Systems Act (Act No. 32 of 2000), Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes an unauthorized expenditure. Irregular expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

18. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is an expenditure that was made in vain and would have been avoided had a reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

19. FOREIGN CURRENCIES

Transactions in foreign currency (if any) are initially recorded at the prevailing exchange rate on the date of the transaction. Monetary assets and liabilities denominated in such foreign currencies are retranslated at the rates at the reporting date. Exchange differences are included in the Statement of Financial Performance.

20. COMPARATIVE INFORMATION

20.1. Current Year Comparatives

Budgeted amounts are included in the annual financial statements for the current financial year.

20.2. Prior year comparatives

When the presentation and classification of items in the annual financial statements is amended, prior year comparative amounts are reclassified. The nature and the reason for reclassification are disclosed.

**UMZUMBE LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2008**

	Note	2008 R	2007 R
REVENUE			
Interest earned - external investments		2 918 401	1 417 531
Government grants and subsidies	10	48 759 715	38 131 657
Other income	11	117 328	365 457
Total Revenue		51 795 444	39 914 644
EXPENDITURE			
Employee related costs	12	7 547 925	5 443 962
Remuneration of Councillors	13	8 012 861	6 342 840
Depreciation		1 985 718	270 015
Repairs and maintenance		820 204	354 834
Interest paid	14	229	0
General expenses		25 123 148	17 965 135
Loss on disposal of property, plant and equipment		97 598	0
Total Expenditure		43 587 682	30 376 786
SURPLUS/(DEFICIT)		8 207 762	9 537 858
SURPLUS/(DEFICIT) FOR THE YEAR		8 207 762	9 537 858

UMZUMBE LOCAL MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 R	2007 R
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from ratepayers, government and other			11 755 064
Cash paid to suppliers and employees		-2 557 634	8 867 855
Cash generated from/(utilised in) operations	16	-2 557 634	20 622 919
Dividends received			-
Interest received		2 918 401	1 417 531
Interest paid		-229	-
NET CASH FROM OPERATING ACTIVITIES		360 538	22 040 449
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		-18 160 158	-127 685
Proceeds on disposal of property, plant and equipment			-
(Increase)/decrease in call investment deposits			
(Increase)/decrease in non-current receivables		862 471	
NET CASH FROM INVESTING ACTIVITIES		-17 297 687	-127 685
CASH FLOWS FROM FINANCING ACTIVITIES			
Long-term liabilities repaid			
NET CASH FROM FINANCING ACTIVITIES		-	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		-16 937 150	21 912 764
Cash and cash equivalents at the beginning of the year		33 322 112	11 409 348
Cash and cash equivalents at the end of the year	17	16 384 963	33 322 112

UMZUMBE LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2008

	Note	2008 R	2007 R
COMMUNITY WEALTH (NET ASSETS) AND LIABILITIES			
Net assets		44 921 993	36 820 441
Government grant reserve		27 014 922	12 269 775
Accumulated Surplus/(Deficit)		17 907 071	24 550 665
Non-current liabilities		0	0
Long-term liabilities		0	0
Current liabilities		17 552 390	19 712 219
Provisions	1	297 500	233 100
Creditors	2	5 934 920	7 469 928
Unspent conditional grants and receipts	3	8 324 941	12 009 191
Bank overdraft		2 995 029	0
Total Net Community Wealth (Assets) and Liabilities		62 474 383	56 532 660
ASSETS			
Non-current assets		36 659 070	21 347 101
Property, Plant and Equipment	5	36 659 070	20 484 630
Long-term receivables	6	-	862 471
Current assets		25 815 313	35 185 559
VAT	4	5 931 540	1 539 162
Other debtors	7	503 781	324 284
Call investment deposits	8	19 379 871	28 077 800
Bank balances and cash	9	121	5 244 313
Total Assets		62 474 383	56 532 660

UMZUMBE LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008	2007
	R	R

1 PROVISIONS

Performance bonus	-297 500	233 100
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Total Provisions	-297 500	233 100
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The performance bonus accrue to Section 57 employees on an annual basis, subject to the performance evaluation performed on a quarterly basis. The performance bonus is 14% of the total remuneration package of Section 57 employees. The provision is an estimate of the amount due at the reporting date, which is payable to the employee if the targets set for each employee are met. The 14% used is per council resolution taken when the remuneration of all Section 57 employees were

The movement in current provisions are reconciled as follows: -

<u>Performance Bonus</u>	<u>Current portion Long</u>
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30th June 2008

Balance at beginning of year	-	-
Transfer from non-current		
Contributions to provision	-297 500	
Expenditure incurred		
Balance at end of year	-297 500	-

30th June 2007

Balance at beginning of year	-	-
Transfer from non-current	-	-
Contributions to provision	-	-
Expenditure incurred	-	-
Balance at end of year	233 100	-

2 CREDITORS

Staff leave	-466 812	-295 261
Other creditors	-5 468 108	-7 174 667

Total Creditors	-5 934 920	-7 469 928
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3 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

Conditional Grants from other spheres of Government	-8 324 941	-12 009 191
Conditional grants from other spheres of governments	-8 324 941	-12 009 191
Other grants receipts	-	-
Total Conditional Grants and Receipts	-8 324 941	-12 009 191

See Grants Reconciliation Schedule for reconciliation of grants from other spheres of government.

These amounts are invested in a ring-fenced investment until utilized.

4 VAT

VAT Receivable	5 931 540	1 539 162
The municipality does not generate any income whereby vat output will be declared to SARS. Therefore only vat input was claimed which has not been received as yet.		

5 Refer to PPE Note Schedule

6 LONG-TERM RECEIVABLES

Electrification Programme	862 471	862 471
Less : Provision for Doubtful Debts	-862 471	-
Total Receivables	-	862 471

ELECTRICITY ASSISTANCE SCHEME

This refers to the overpayment that was made to the REI Consulting CC during 2004/2005 financial year. The actions to recover this money for the municipality commenced in 2006/2007 financial year in the form of forensic investigation that is still progress for the entire electrification project. The provision for doubtful debts has been made due to the uncertainty to recover the amount.

7 OTHER DEBTORS

R

R

Interest receivables	330 990	295 833
Overpayments	169 417	25 077
Electricity Deposits	3 374	3 374
Total Other Debtors	503 781	324 284

8 SHORT-TERM INVESTMENT DEPOSITS

	R	R
Notice deposits	13 557 777	13 328 762
Call deposits	5 829 094	14 749 038
Total short-term investments deposits	19 379 871	28 077 800

The short-term investments deposits are attributable to unspent conditional grants.
The short-term investments are held in First National Bank in Portshepstone.

9 BANK, CASH AND OVERDRAFT BALANCES

The Municipality has the following bank accounts: -

Current Account (Primary Bank Account)

	R	R
First National Bank - Portshepstone Branch -		
Cash book balance at beginning of year – overdrawn	5 244 191	668 453
Cash book balance at end of year - overdrawn	-2 995 029	5 244 191
Bank statement balance at beginning of year - (overdrawn)	5 722 801	743 694
Bank statement balance at end of year - (overdrawn)	1 834 808	5 722 801

10 GOVERNMENT GRANTS AND SUBSIDIES

	R	R
Equitable share	29 295 359	31 058 484
Financial Management Grant (FMG)	569 543	254 902
LED Strategy	69 592	-
Municipal Infrastructure Grant (MIG)	14 808 818	954 839
Municipal Systems Improvement Grant (MSIG)	747 761	1 146 083
Water Draught Relief Project	747 498	-

Municipal Assistance Programme Grant (MAP)	62 131	1 337 869
Project Consolidate Grant	162 682	562 153
Geographical Information Systems Grant (GIS)	157 695	146 753
MFMA Grant	-	49 779
IDP Review Grant	50 000	-
Property Rates	90 000	-
Housing Sector Plan	50 000	-
Municipal Development Plan Capacity Building	195 036	168 520
Support Grant		
Establishment Grant	1 034 375	140 266
Community Development Workers Grant	-	31 336
PMS Grant	16 718	23 282
Low Cost Housing Grant	636 573	2 123 323
Technical Support Infrastructure Backlog Grant	65 932	134 068
Total Government Grant and Subsidies	48 759 715	38 131 657

11 OTHER INCOME

	R	R
Tender income	16 579	64 021
Department of Transport School Crossing Guards	11 128	-
Hall Bookings	1 140	2 595
LGSETA and other	78 461	298 691
Department of Transport	10 020	-
Security Fee	-	150
Total Other Income	117 328	365 457

12 EMPLOYEE RELATED COSTS

	R	R
Employee related costs - Salaries and Wages	4 781 112	3 749 428
Employee related costs - Contributions for UIF, pensions and medical aids	1 045 055	678 554
Travel, motor car, accommodation,	899 546	727 338
Overtime payments	148 899	47 513
Bonuses	238 877	170 602
Bonus Provision adjustment expense	297 500	
Contribution to Group Life Scheme	136 935	70 527
Total Employee Related Costs	7 547 925	5 443 962

There were no advances to employees during the year under review.

13 REMUNERATION OF COUNCILLORS

R **R**

Mayor	477 616	496 401
Deputy Mayor	397 686	232 893
Speaker	507 305	402 073
Executive Committee Members	1 040 657	703 290
Councillors	5 589 597	4 945 130
Total Councillors' Remuneration	8 012 861	6 779 787

14 INTEREST PAID	R	R
Bank overdrafts	229	-
Total Interest on External Borrowings	229	-

15 Prior year adjustments

An exercise to update and verify assets on the register was conducted during the financial period. It was accordingly necessary to restate all balances in the ledger in line with the register. The necessary adjustments were posted against the Accumulated surplus.

The comparative amounts have been restated as follows:

	2008	2007
	R	R
unspent conditional Grants		100 000
Accumulated depreciation-Land and Buildings		440 873
Accumulated depreciation-Infrastructure		-356 533
Accumulated depreciation-Community Assets		-756 435
Accumulated depreciation-Other Assets		134 325
Land and Buildings		-5 756 467
Infrastructure		-891 307
Community Assets		9 615 049
Other Assets		-3 118 978
Net Effect on surplus/(deficit) for the year		-589 473

16 CASH GENERATED BY OPERATIONS

	R	R
Surplus for the year	8 197 742	9 537 858
Adjustment for:-		
Depreciation	1 985 718	270 015
Gain (Loss) on disposal of property, plant and equipment	-106 210	-
Investment income	-2 918 401	-1 417 531

Interest paid	229	-
Operating surplus before working capital changes:	7 159 078	8 390 342
(Increase)/decrease in other debtors	-179 497	455 314
(Decrease)/increase in conditional grants and receipts	-3 674 230	6 781 035
(Decrease)/Increase in creditors	-1 535 008	6 535 390
(Decrease)/Increase in provisions	64 400	
(Decrease)/Increase in VAT	-4 392 377	-1 539 162
Cash generated by/(utilised in) operations	-2 557 634	20 622 919

17 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the

	R	R
Bank balances and cash	121	5 244 313
Call investment deposits	19 379 871	28 077 800
Bank overdraft	-2 995 029	-
Total cash and cash equivalents	16 384 963	33 322 113

18 UNAUTHORISED, IRREGULAR, FRUITLESS

Unauthorised expenditure

Reconciliation of unauthorised expenditure		-
Opening balance	8 634 178	8 634 178
Unauthorised expenditure current year		-
Approved by Council or condoned		-
Transfer to receivables for recovery		-
Unauthorised expenditure awaiting authorisation	8 634 178	8 634 178

Incident	Action
<i>The REI Consulting firm who undertook an Electrification Programme within jurisdiction areas of uMzumbe municipality was double paid by R862471.14 and claimed that he has done the job for the municipality equivalent to that amount. There are other projects whereby budget allocations were exceeded without prior approval of the council.</i>	The Director : Technical services was dismissed and forensic investigation is underway.

19 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

19.1 Contributions to organized local government

Opening balance	-	-
Council subscriptions	100 120	29 793
Amount paid - current year	-100 120	-29 793
Amount paid - previous years		-
Balance unpaid (included in creditors)	-	-

The municipality contributes annually.

19.2 Audit fees

Opening balance		-
Current year audit fee	680 653	363 749
Amount paid - current year	-680 653	-363 749
Amount paid - previous years		-
Balance unpaid (included in creditors)	-	-

19.3 VAT

VAT inputs receivables and VAT outputs receivables are shown in note 5. All VAT Returns have been submitted by the due date throughout the year.

19.4 PAYE and UIF

Opening balance	-	-
Current year payroll deductions	1 913 789	1 364 101
Amount paid - current year	-1 913 789	-1 364 101
Amount paid - previous years		-
Balance unpaid	-	-

The balance represents PAYE and UIF deducted from the remuneration of employees

19.5 Pension and Medical Aid Deductions

Opening balance	-	-
Current year payroll deductions and Council Contributions	2 270 385	970 266
Amount paid - current year	-2 270 385	-970 266
Amount paid - previous years		-
Balance unpaid	-	-

The balance represents pension and medical aid contributions deducted from the remuneration of employees and councillors and paid over to the relevant institutions on a

19.6 Non-Compliance with Chapter 11 of

The Municipality has developed a Supply Chain Management Unit and compiled a Supply Chain Management Policy. However, the Unit is not properly effective due to the following reasons:

The municipality has implemented the basic SCM requirements. It has a challenge of not complying with SCM as a result of not being able to obtain at least three quotations because of late requisitions submitted to SCM Unit by

The lack of human capital is resulting in the municipality, not being able to strengthen the segregation of duties in Supply Chain Management (SCM) unit.

The lack of financial resources to establish an adequate SCM unit.

20 CAPITAL COMMITMENTS

	R	R
Commitments in respect of capital expenditure:		
- Approved and contracted for	-	-
<i>Infrastructure</i>		
<i>Other</i>		
- Approved but not yet contracted for	19 287 402	17 504 107
<i>Infrastructure</i>	12 348 646	15 774 107
<i>Other</i>	6 938 756	1 730 000
Total	19 287 402	17 504 107

This expenditure will be financed from:

- Government Grants	19 287 402	17 504 107
	19 287 402	17 504 107

21 COMPARISON WITH THE BUDGET

The comparison of the Municipality's actual financial performance with that budgeted is set out in Annexures E(1) and E(2).

UMZUMBE LOCAL MUNICIPALITY

STATEMENT OF CHANGES IN COMMUNITY WEALTH (NET ASSETS) FOR THE YEAR ENDED 30 JUNE 2008

	<u>Government Grant Reserve</u>	<u>Accumulated Surplus/(Deficit)</u>	<u>Total</u>
	R	R	R
2007			
Balance at 1 July 2006	11 198 218	15 602 280	26 800 498
Restated balance	11 198 218	15 602 280	26 800 498
Surplus/(deficit) for the year		9 537 858	9 537 858
Balance at 30 June 2007	12 269 775	25 140 138	36 338 356
2008			
Prior year adjustments (Note 16)		-589 473	-589 473
Restated balance	12 269 775	24 550 665	36 820 441
Surplus/(deficit) for the year		8 207 762	8 207 762
Capital grants used to purchase PPE	16 875 376	-16 875 376	-
Adjustments		-106 210	-106 210
Asset disposals	-144 511	144 511	-
Offsetting of depreciation	-1 985 718	1 985 718	0
Balance at 30 June 2008	27 014 922	17 907 071	44 921 993

10. PROPERTY, PLANT AND EQUIPMENT

30 th June 2008

Reconciliation of Carrying Value	<u>Land and Buildings</u>	<u>Infrastructure</u>	<u>Community</u>	<u>Other</u>	Total
	R	R	R	R	R
Carrying values at 1 July 2007	1 428 325	6 593 879	8 858 614	3 603 812	20 484 630
Cost	1 648 695	7 864 932	9 615 049	5 340 282	24 468 957
Correction of error	0	0	0	0	-683 472
Accumulated depreciation	-220 370	-1 271 053	-756 435	-1 736 470	-3 984 327
Capital under Construction	217 460	5 469 043	9 627 427	2 846 228	18 160 158
Depreciation	56 914	781 231	400 061	747 512	1 985 718
- based on cost	56 914	781 231	400 061	747 512	1 985 718
Carrying values at 30 June 2008	1 588 870	11 281 692	18 085 981	5 702 528	36 659 070
Cost	1 866 155	13 333 976	19 242 476	8 041 999	42 484 605
Accumulated depreciation	-277 284	-2 052 284	-1 156 495	-2 339 472	-5 825 535

PROPERTY, PLANT AND EQUIPMENT

30th June 2007

Reconciliation of Carrying Value	<u>Land and Buildings</u>	<u>Infra-structure</u>	<u>Community</u>	<u>Other</u>	Total
	R	R	R	R	R
Carrying values at 30 June 2007	1 428 325	6 593 879	8 858 614	3 603 812	20 484 630
Cost	1 648 695	7 864 932	9 615 049	5 340 282	24 468 957
Accumulated depreciation	-220 370	-1 271 053	-756 435	-1 736 470	-3 984 327

An exercise to update and verify assets on the register was conducted during the financial period. It was accordingly necessary to restate all balances in the ledger in line with the register. The necessary adjustments were posted against the Accumulated surplus.

APPENDIX B								
UMZUMBE LOCAL MUNICIPALITY								
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2008								
	COST				ACCUMULATED DEPRECIATION			
	COST	ADDITIONS	DISPOSALS	CLOSING	OPENING	Depreciation	DISPOSALS	CLOSING
	BALANCE				BALANCE	BALANCE		
Other Assets								
Plant and Equipment	1 946 750.00	-	-	1 946 750.00	240 118.82	130 138.86	-	370 257.68
Plant and Equipment	1 003 100.09	148 768.56	-	1 151 868.65	229 897.98	110 489.16	-	340 387.14
Plant and Equipment	100 409.70	1 798.00	-	102 207.70	42 360.30	20 309.60	-	62 669.90
Motor Vehicles	799 024.62	1 729 108.35	144 510.62	2 383 622.35	535 827.47	206 823.92	144 510.62	598 140.77
Computer Equipment	557 371.80	445 326.50	-	1 002 698.30	224 799.66	140 164.49	-	364 964.15
Office Equipment	232 639.19	212 899.16	-	445 538.35	144 987.33	47 122.42	-	192 109.75
Furniture and Fittings	700 986.29	308 327.40	-	1 009 313.69	318 478.43	92 463.69	-	410 942.12
Total	5 340 281.69	2 846 227.97	144 510.62	8 041 999.04	1 736 469.99	747 512.14	144 510.62	2 339 471.51
Infrastructure Assets								
Sewerage	26 400.00	-	-	26 400.00	2 857.01	2 647.25	-	5 504.26
Water Reticulation	120 997.47	-	-	120 997.47	31 753.38	12 132.93	-	43 886.31
Fencing	4 209 933.84	-	-	4 209 933.84	327 780.07	140 715.49	-	468 495.56
Roads	3 507 600.96	5 469 043.30	-	8 976 644.26	908 662.57	625 735.16	-	1 534 397.73
Total	7 864 932.27	5 469 043.30	-	13 333 975.57	1 271 053.03	781 230.83	-	2 052 283.86
Community Assets								
Community Centres	9 615 048.91	9 627 426.99	-	19 242 475.90	756 434.56	400 060.78	-	1 156 495.34
Total	9 615 048.91	9 627 426.99	-	19 242 475.90	756 434.56	400 060.78	-	1 156 495.34
Land and Buildings								
Land and Buildings	1 648 694.50	217 460.00	-	1 866 154.50	220 369.83	56 914.24	-	277 284.07
Total	1 648 694.50	217 460.00	-	1 866 154.50	220 369.83	56 914.24	-	277 284.07
Grand Total	24 468 957.37	#####	144 510.62	42 484 605.01	3 984 327.41	#####	144 510.62	5 825 534.78

CARRYING VALUE	
2007	2008
1 706 631.18	1 576 492.32
773 202.11	811 481.51
58 049.40	39 537.80
263 197.15	1 785 481.58
332 572.14	637 734.15
87 651.86	253 428.60
382 507.86	598 371.57
3 603 811.70	5 702 527.53
-	-
23 542.99	20 895.74
89 244.09	77 111.16
3 882 153.77	3 741 438.28
2 598 938.39	7 442 246.53
6 593 879.24	11 281 691.71
-	-
8 858 614.35	18 085 980.56
8 858 614.35	18 085 980.56
-	-
1 428 324.67	1 588 870.43
1 428 324.67	1 588 870.43

36 659 070.23

APPENDIX C
UMZUMBE LOCAL MUNICIPALITY
SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2008

	Cost					Accumulated Depreciation				Carrying
	Opening	Additions	Under	Disposals	Closing	Opening	Depreciation	Additions	Disposals	Closing
	Balance		Construction		Balance	Balance				Balance
Executive & Council	411 970	369 797	-	-	781 767	204 533	76 577	-	-	281 110
Finance & Admin	4 450 973	2 265 303	-	144 511	6 571 765	1 353 916	594 316	-	144 511	1 803 721
Planning & Development	27 700	39 151	-	-	66 851	8 706	6 365	-	-	15 072
Community & Social Services	17 861	144 590	-	-	162 452	9 192	7 378	-	-	16 569
Technical	19 560 454	14 056 534	1 284 783	-	34 901 770	2 407 981	1 301 082	-	-	3 709 063
					-					-
TOTAL	24 468 957	16 875 376	1 284 783	144 511	42 484 605	3 984 327		-	144 511	5 825 535

APPENDIX D
UMZUMBE LOCAL MUNICIPALITY
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2008

2007	2007	2007		2008	2008	2008
Actual Revenue	Actual Expenditure	Surplus / (Deficit)		Actual Income	Actual Expenditure	Surplus / (Deficit)
R	R	R		R	R	R
-	6 021 324	-6 021 324	Executive & Council	8 277 545	16 084 205	-7 806 659
39 914 644	2 277 274	37 637 370	Financial and Admin. Services	10 895 302	17 996 919	-7 101 617
-	4 014 216	-4 014 216	Technical Services	26 156 167	4 785 194	21 370 973
-	10 035 540	-10 035 540	Planning and Development Services	1 239 546	2 253 903	-1 014 356
-	8 028 432	-8 028 432	Community and Social Services	5 263 777	2 369 863	2 893 913
39 914 644	30 376 786	9 537 858	Sub Total	51 832 337	43 490 084	8 342 253
						-
39 914 644	30 376 786	9 537 858	Total	51 832 337	43 490 084	8 342 253

APPENDIX E(2)
UMZUMBE LOCAL MUNICIPALITY
ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2008

	<u>2 008</u>	<u>2 008</u>	<u>2 008</u>	<u>2 008</u>	<u>2 008</u>	<u>2 008</u>	<u>Explanation of Significant Variances</u>
	<u>Actual</u> <u>Additions</u>	<u>Under</u> <u>-</u> <u>Constructio</u>	<u>Total</u> <u>Additions</u>	<u>Budget</u>	<u>Variance</u>	<u>Variance</u>	<u>greater than 5% versus Budget</u>
	<u>R</u>	<u>R</u>	<u>R</u>	<u>R</u>	<u>R</u>	<u>%</u>	<u>(Explanations to be recorded)</u>
Executive & Council	369 797	-	369 797	579 000	209 203	36	The budget included the project of the council chamber which is still pending.
Finance & Admin	2 265 303	-	2 265 303	2 471 300	205 997	8	The budget included the furniture for additional staff of which some of them are not yet been appointed.
Planning & Development	39 151	-	39 151	170 000	130 849	0	
Community & Social Services	144 590	-	144 590	4 600 000	4 455 410	97	The community and social services department has been just established and some of the staff members in this department were not appointed at the beginning of the year.
Technical Services	14 056 534	1 284 783	15 341 316	26 622 509	11 281 193	42	Due to the backlogs on infrastructural assets, the spending trend was therefore not as anticipated.
			-		-		
TOTAL	16 875 376	1 284 783	18 160 158	34 442 809	16 282 651	47	

APPENDIX E(1)
UMZUMBE LOCAL MUNICIPALITY
ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2008

REVENUE	<u>2008</u> Actual (R)	<u>2008</u> Budget (R)	<u>2008</u> Variance (R)	<u>2008</u> Variance (%)	<u>Explanation of Significant Variances</u> <u>greater than 10% versus Budget</u>
Interest earned - external investments	2 918 401	1 500 000	1 418 401	94.56%	The general increase in rate of interest. In addition it was anticipated that there will withdrawal from the investments to be utilised for infrastructural development.
Government grants and subsidies	48 759 715	43 342 000	5 417 715	12.50%	Some of the grants such as draught relief etc were received during the year under review, which is after the approval of the annual budget.
Other income	117 328	13 021 000	-12 903 672	-99.10%	The budgeted other income includes carry-overs from prior years due to the slow spending trend. These carry-overs form part of the investments in the bank. The carry-overs are not included in the actuals.
Total Revenue	51 795 444	57 863 000	-6 067 556	-10.49%	
EXPENDITURE					
Executive & Council	16 084 204.73	9 240 633	6 843 572	74.06%	The executive committee members became full time as a result an administration support should have been provided.
Finance & Admin	17 996 919.05	12 162 964	5 833 955	47.96%	A general increase in the costs. In addition an establishment increased due to the employment of additional staff.
Community & Social Services	2 369 863.43	5 876 214	-3 506 351	-59.67%	The community services department has been undercapacited, therefore low spending trend existed.
Planning & Development	2 253 902.57	1 383 767	870 136	62.88%	The planning department has also been under capacited, therefore low spending trend existed.
Technical Services	4 785 194.23	29 199 422	-24 414 228	-83.61%	There is a backlogs on projects, therefore an implementation process of the projects has not been as quick as anticipated as a result slow spending occurred.
Total Expenditure	43 490 084.01	57 863 000	-14 372 916	-24.84%	
NET SURPLUS/(DEFICIT) FOR THE YEAR	8 305 360	-	8 305 360		